

**SENATE BILL**

**No. 18**

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**Introduced by Senator Cogdill**

October 11, 2007

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An act to add Sections 22869.5 and 22917 to the Government Code, relating to employee health benefits, and making an appropriation therefor.

LEGISLATIVE COUNSEL'S DIGEST

SB 18, as introduced, Cogdill. Employee health benefits: health savings accounts.

Under the Public Employees' Medical and Hospital Care Act, the Board of Administration of the Public Employees' Retirement System contracts for and administers health care benefit plans for public employees and annuitants. Existing state and federal income tax laws allow a deduction for contributions to a qualifying medical savings account by a taxpayer who is covered under a high deductible health plan, as defined. Money within this type of account may be used to pay for qualified medical expenses, as defined.

This bill would require the Board of Administration of the Public Employees' Retirement System to offer a high deductible health plan, as defined in the federal tax law, and a health savings account option to public employees and annuitants, as specified. The bill would establish the Public Employees' Health Savings Fund, a continuously appropriated trust fund within the State Treasury, for payment of qualified medical expenses of eligible employees and annuitants who elect to enroll in the high deductible health plan and participate in the health savings account option, and would require those employees and

annuitants, and their employers, to make specified contributions to that fund, thereby making an appropriation.

This bill would also make related legislative findings and declarations.

Vote: majority. Appropriation: yes. Fiscal committee: yes.  
State-mandated local program: no.

*The people of the State of California do enact as follows:*

1 SECTION 1. The Legislature finds and declares all of the  
2 following:

3 (a) The Board of Administration of the Public Employees'  
4 Retirement System administers health benefits for employees and  
5 annuitants, and their family members, from state and local public  
6 agencies.

7 (b) Health savings accounts have been viewed as an alternative  
8 to the traditional health insurance market and give patients more  
9 control over their health care options and expenses.

10 (c) Health savings accounts are tax-exempt accounts that allow  
11 individuals to pay for health care expenses in conjunction with  
12 high-deductible catastrophic coverage.

13 (d) The benefits to patients who receive health insurance  
14 coverage through a health savings account include increased  
15 treatment options, access to specialty care, and strengthening of  
16 the patient-physician relationship.

17 SEC. 2. Section 22869.5 is added to the Government Code, to  
18 read:

19 22869.5. (a) The board shall offer a health savings account  
20 option to all employees and annuitants. In addition to the basic  
21 health benefit plans described in Sections 22830 and 22850, and  
22 notwithstanding any other provision of this part, the board shall  
23 approve at least one high deductible health plan, as defined in  
24 Section 223(c)(2) of the Internal Revenue Code.

25 (b) The design and administration of the health savings account  
26 option shall comply with the standards provided in Section 223 of  
27 the Internal Revenue Code and any other applicable revenue  
28 procedures or provisions of the Internal Revenue Code and the  
29 Revenue and Taxation Code.

30 (c) (1) An employee or annuitant who qualifies as an eligible  
31 individual, as defined in Section 223(c)(1)(A) of the Internal  
32 Revenue Code, and who elects to participate in the health savings

1 account option shall enroll in a high deductible health plan offered  
2 by the board and shall contribute the total cost per month of the  
3 benefit coverage afforded him or her under that plan less the portion  
4 thereof to be contributed by the employer.

5 (2) The employee or annuitant shall also designate an additional  
6 amount to be deducted from his or her salary or retirement  
7 allowance for qualified medical expenses, which amount shall be  
8 deposited into the Public Employees' Health Savings Fund and  
9 shall be credited to a nominal account in the name of the employee  
10 or annuitant.

11 (3) For purposes of this section, "qualified medical expenses"  
12 means those expenses as defined in Section 223(d)(2) of the  
13 Internal Revenue Code.

14 (d) (1) The employer of an employee or annuitant who elects  
15 to participate in the health savings account option shall contribute  
16 a portion, pursuant to Article 7 (commencing with Section 22870)  
17 or Article 8 (commencing with Section 22890), of the cost of  
18 providing the benefit coverage under the high deductible health  
19 plan.

20 (2) The employer shall also contribute an amount equal to the  
21 difference between the amount contributed pursuant to paragraph  
22 (1) and the weighted average of the health benefit plan premiums  
23 the employer would have paid if the employee or annuitant had  
24 enrolled in a plan other than the high deductible health plan, which  
25 amount shall be deposited into the Public Employees' Health  
26 Savings Fund and shall be credited to a nominal account in the  
27 name of the employee or annuitant.

28 (e) Moneys credited to the employee's or annuitant's nominal  
29 account in the Public Employees' Health Savings Fund shall be  
30 disbursed to pay qualified medical expenses incurred by the  
31 employee or annuitant, in accordance with Section 223 of the  
32 Internal Revenue Code.

33 (f) The board shall adopt regulations necessary to implement  
34 this section.

35 SEC. 3. Section 22917 is added to the Government Code, to  
36 read:

37 22917. (a) There is in the State Treasury a Public Employees'  
38 Health Savings Fund, the purpose of which is to pay the qualified  
39 medical expenses of health savings accountholders pursuant to  
40 Section 22869.5 and pursuant to Section 223 of the Internal

1 Revenue Code. The board shall have the exclusive control of the  
2 administration and investment of the fund.

3 (b) The Public Employees' Health Savings Fund shall consist  
4 of moneys deducted from the salary or retirement allowance of an  
5 employee or annuitant, and moneys contributed by the employee's  
6 or annuitant's employer, for qualified medical expenses pursuant  
7 to Section 22869.5.

8 (c) The board may invest funds in the Public Employees' Health  
9 Savings Fund pursuant to the law governing its investment of the  
10 retirement fund, subject to the limitations contained in Section 223  
11 of the Internal Revenue Code. Income, of whatever nature, earned  
12 on the fund during any fiscal year shall be credited to the fund.

13 (d) Notwithstanding Section 13340, the Public Employees'  
14 Health Savings Fund is continuously appropriated, without regard  
15 to fiscal years, to reimburse qualified medical expenses of health  
16 savings accountholders.

17 (e) The Legislature finds and declares that the Public  
18 Employees' Health Savings Fund is a trust fund held for the  
19 exclusive benefit of employees and annuitants who elect the health  
20 savings account option pursuant to Section 22869.5.

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